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WASTE REPORT for June 27, 2016

Taxes are Literally Wasting Your Money

Most people hate taxes, not just paying them, but the arduous, painful process of filing a tax return. No one would argue that the United States' tax code is simple and easy. But did you know, the government spends over \$12 billion dollars and employs almost 90,000 workers just to administer and collect taxes?¹ To put that in prospective, over 1.5 million average American taxpayers pay taxes just to pay the cost of running our tax system.²

So, why does our tax system require all this? Well, let's start with a little history. Our current tax system was established 103 years ago with the passage of the 16th Amendment. The first federal income tax under that system had one form that was four pages long: one for income, one for deductions (of which there were six), and one to calculate your tax liability (there were seven brackets with a top marginal rate of 7%). Oh, and one page of instructions. That was all.³

Fast forward to today, there are hundreds of forms, worksheets, tables, and schedules. In fact, according to the Tax Foundation, there are over 10 million words in the tax code, and Americans spend 6.1 billion hours a year on their taxes.⁴ You suppose they are called schedules because filling them out is going to suck up your day?

The major culprit is special carve outs and rules; as Congress raised rates they also expanded those six basic deductions into hundreds, to help mitigate the higher rates. Weird, huh? In fact the Congressional Research Service issued a more than 1000 page report in 2012 chronicling over 250 deductions and credits. And there is nothing basic about deductions anymore; one that caught our eye at the FSO Subcommittee was "60-40 Rule for Gains or Loss from Section 1256 Contracts."⁵ We think it either has something to do with trading futures, or is maybe a credit for taxes already paid in the future as a result of time-travel (the McFly-Brown credit?).

Whereas in 1913, anyone with their one page of instructions could fill out a tax return more easily than assembling an Ikea bookcase, today, almost everyone needs help. In fact, 92 percent of filers use some kind of help like a paid professional or tax software. Even about 73 percent of Internal Revenue Service employees (the guys running this system) need help with their taxes.⁶

Of course, not everyone can afford help. In fact Uncle Sam spends around \$200 million helping poor and elderly people understand and file their taxes. What is interesting about that is most low income people generally aren't dealing with Section 1256 Contracts (or time traveling DeLoreans), but the system is so complicated that even a simple return is still pretty hard.

Even after you file, you might not be done - you might have made a mistake. After spending \$200 million helping people file their taxes, we spend another \$200 million for the Taxpayer Advocate, an office that can help you if the IRS is giving you an undeserved hard time.

1.5 million people paying taxes to support tax collection and \$400 million spent trying to help people traverse this goliath. It all seems unnecessarily complicated and wasteful.

¹ <https://www.treasury.gov/about/budget-performance/C17/02-06.%20IRS%20FY%202017%20CJ%201%2022%2016%20v2%20FINAL%20CLEAN.PDF>

² FSO Calculation based on average tax liability of \$7,212

³ <https://www.irs.gov/pub/irs-utl/1913.pdf>

⁴ <http://taxfoundation.org/blog/federal-tax-laws-and-regulations-are-now-over-10-million-words-long>

⁵ <https://www.gpo.gov/fdsys/pkg/CPRT-113SPRT91950/pdf/CPRT-113SPRT91950.pdf>

⁶ <https://www.treasury.gov/tigta/auditreports/2012reports/201240001fr.pdf>